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C O N F I D E N T I A L ABU DHABI 04400

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ACTION: ECON  
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DISSEMINATION: ECON  
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INFO RUEHHH/OPEC COLLECTIVE PRIORITY  
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RUCPDOC/DEPT OF COMMERCE WASHDC PRIORITY  
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C O N F I D E N T I A L SECTION 01 OF 02 ABU DHABI 004400

SIPDIS

C O R R E C T E D COPY (CHANGED SUBJECT)

DEPT FOR NEA/RA, NEA/ARP, INR/EC, EB/IEP, EB/CBA  
USDOE FOR INT'L AFFAIRS - COBURN  
USDOC FOR 1000/OC/  
USDOC FOR 4520/ITA/IEP/ONE

E.O. 12958: DECL: 12/05/2014  
TAGS: [EPET](#) [ENRG](#) [ECON](#) [TC](#)  
SUBJECT: NEW UAE OIL MINISTER CONFIRMS MODERATE STANCE  
AT OPEC

(U) Classified by Ambassador Michele Sison for reasons 1.4  
(B) and (D).

¶1. (C) Summary: New UAE Energy Minister Al-Hamili told Ambassador on December 5 that the UAE was committed to meeting market needs. He also underlined the UAE's interest in market stability and moderate prices that support global growth. The Minister stressed that OPEC was doing all it could to stabilize the market. The UAE is producing at (or near) its maximum sustainable capacity of 2.6 mb/d. Al-Hamili said that the sudden drop in prices had made "some" OPEC members nervous, but that prices were still high enough that members couldn't (or shouldn't) complain. Although Al-Hamili declined to predict the outcome of the upcoming December 10 OPEC meeting, he made it clear that the UAE would endeavor to play a positive role at the meeting. End Summary.

¶2. (C) Ambassador paid a courtesy call on Mohammed bin Dha'en Al-Hamili, the new UAE Minister of Energy, on December 5. Ambassador used the opportunity to note USG appreciation for actions taken by producers recently to meet rising oil demand. She noted that, in spite of the past week's decline in crude prices, prices remained volatile and high, and were of concern to global economic growth. The winter heating season was not the time to signal an impending drop in supply. Minister Al-Hamili quickly replied that he understood the need for market stability and reiterated the UAE's desire to meet consumer country needs. He stressed that the UAE and other large producers such as Saudi Arabia, Kuwait and Iraq take a longer-term view than some other OPEC members. The Emiratis understand, he said, that they benefit more from moderate prices. The UAE did not want to impede global growth, or encourage investment in higher cost

alternatives, he emphasized.

¶3. (C) Al-Hamili said that he would be attending an OAPEC meeting immediately after the OPEC meeting, and would also be meeting informally with other Arab producers in advance of the OPEC meeting to "compare notes" and production figures. He admitted that OPEC members tended to "play their cards close to their chest," making it difficult to predict the outcome in advance. He noted that both the Iranians and the Venezuelans had made hawkish statements on production, responding to the recent sharp drop in oil prices, but stated that prices were still high enough that OPEC members "didn't have a reason to complain."

¶4. (C) Al-Hamili explained that, unlike some other oil ministers, he was not likely to make any public pronouncements before the meeting. The Ambassador noted that Al-Hamili had already made some positive statements about the need for continuity after his November 21 swearing-in. Al-Hamili explained that he believed that markets needed to hear reassurances that "cabinet shuffles would not lead to policy changes." In response to Ambassador's mention of concerns that the OPEC meeting results might produce "surprises" that would add to volatility, Al-Hamili stressed that OPEC needed to play a "responsible role" in stabilizing the market and in providing the market with enough crude to meet demand.

¶5. (C) Al-Hamili stated that prices needed "to adjust" and that the recent drop in prices was expected. He said what had surprised everyone, however, was the speed of the fall. This, and the traditional decline in demand during the second quarter, was making some OPEC members nervous. He also noted that OPEC members (excluding Iraq) were only overproducing quota by about one million barrels per day mb/d. OPEC production, including Iraq, was about 30 mb/d.

¶6. (C) Al-Hamili underscored that OPEC was doing all it could to stabilize the market to the extent of appearing to "micromanage" it. Al-Hamili said that OPEC producers, including the UAE, were producing at or near maximum capacity. He said that the UAE could produce more, but only by flaring associated gas -- which is prohibited in the UAE -- and risking damaging the reservoirs. (Note: The UAE's maximum sustainable production capacity is 2.6 mb/d.) Al-Hamili opined that market speculation (rather than supply/demand fundamentals) provided much of the pressure behind current high prices. He noted that paper transactions (i.e., oil futures) were about 5 times greater than the actual physical flow of oil. He said that world demand was about 82 mb/d (of which U.S. demand was 9 mb/d for gasoline alone) and the paper transfers were 400 mb/d. He assessed the price drop as being due to oil speculators exiting the market, but added that speculators could easily re-enter the market driving up the price.

¶7. (SBU) Ambassador also raised the problems an American company (Caltex) was having with gasoline price controls in the UAE. Caltex is a joint venture partner in a chain of gas stations in Dubai and the northern emirates of the UAE. The price it can charge at the pump is set below the wholesale cost of gasoline. Minister Al-Hamili said that he was very much aware of the problem, and that all three UAE distribution companies were taking huge losses. He said that his ministry was interested in helping the distribution companies, but that the final decision rested with the full cabinet. He explained that the UAEG was worried that raising gasoline prices would pass through to higher inflation and hurt consumers, whereas the companies logically needed a market rate to make money. He said that the ministry was looking at solutions and suggested that the oil companies again provide some coordinated proposals to the ministry.

¶8. (C) Bio Note: Minister Al-Hamili comes from the Abu Dhabi National Oil Company (ADNOC) and was also previously the UAE's governor at OPEC from 1994-2002. He is a Harvard Business School Graduate and a certified accountant. During the meeting, he noted that he was still readjusting moving to the ministry and the different rhythms of a public sector

job. He stated that although ADNOC, as Abu Dhabi's national oil company, was not really a private company, it tried to operate like one and he was used to getting to his desk at 7:00 am. It was also clear that he hopes to bring some of the private sector's work ethic to the Ministry. End Bio Note.

¶9. (C) Comment: This was a very encouraging meeting. Al-Hamili stated that the UAE is interested in moderate prices that will not damage global growth and is committed to market stability. Based on our past experience with the ministry, we believe that these views reflect the UAEG's position and will be reflected in the UAE's position in Cairo. We would predict that the UAE would continue its role as one of the moderates.

¶10. (C) Comment Cont. Because the UAE's individual emirates own their oil resources, not the UAEG, the federal Minister of Energy has little influence on plans to expand production. Those are controlled by the Emirates of Abu Dhabi, which has over 90% of the country's proven oil reserves. We will pursue with ADNOC CEO Yousef Omair bin Yousef in the near future. End Comment.  
SISON